L/bh

Decision No. 92938

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority among other things, to increase its rates and charges for electric and gas services to partially offset the effects of financial and operational attrition.	Application No. 59902

ORDER DENYING REHEARING
OF DECISION NO. 92656

Petitions for rehearing of Decision No. 92656 have been filed by Pacific Gas and Electric Company and by Toward Utility Rate Normalization. The Commission has considered each and every allegation in said petitions and is of the opinion that good cause for granting rehearing has not been shown. Therefore,

IT IS ORDERED that rehearing of Decision No. 92656 is denied.

The effective date of this order is the date hereof.

Dated APR 21 1981, at San Francisco, California.

President

I abstain.
Priscilla C. Grew

Commissioners

ALJ/bw **

Decision No. 92656 February 4, 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority among other things, to increase its rates and charges for electric and gas services to partially offset the effects of financial and operational attrition.	Application No. 59902 (Filed August 27, 1980)

(Appearances listed in Appendix A.)

OPINION

Summary of Decision

Pacific Gas and Electric Company (PG&E) sought authority to increase its rates and charges for electric and gas service by $248.8 million and $66.9 million, respectively, outside of the Regulatory Lag Plan to offset the effects of operational and financial attrition in 1981. In lieu of the sought relief PG&E is authorized an increase of $121,076,000 in electric revenues for its CPUC jurisdictional electric operations and an increase of $34,931,000 for its gas operations to cover estimated operational and financial attrition in 1981.

The increase is required because of the severe deterioration of PG&E's rate of return and return on equity which could fall to as low as 5.45 percent in 1981 from the authorized level of 13.45 percent. A decline of such magnitude would have a serious effect on the cost to finance needed construction in 1981 and possibly on the ability to provide proper levels of service.

This decision increases the base rates of all electric rate schedules and contracts for the sale of energy by a uniform $0.00216 per kWh except for experimental Schedules Nos. A-20-A, A-20-B, A-20-C, A-20-D, the contract for sale of energy to the state pumps of the Department of Water Resources, and Special Contract--City and County of San Francisco Supplementary Service. In our companion ECAC decision in Application No. 60007 providing for a $178 million reduction in ECAC rates to be signed with this order, we will make the necessary adjustment to maintain the 38 percent differential in total residential electric rates between the three residential tiers as adopted in Decision No. 91721 and maintained in Decision No. 92249.

The $34.9 million increase in gas revenues authorized in this decision will increase base rates for residential Tiers 1, 2 and 3 rates, nonresidential P1 and P2 rates, resale rates and G-55 and G-57 steam electric rates consistent with our gas rate design guidelines.

Appendix C presents a bill comparison for a residential gas customer in the Bay Area at various consumption levels including the $0.00105 per therm ZIP base rate increase authorized by Decision No. 92653 in Application No. 59537.

Appendix D presents a bill comparison for a residential electric customer with a basic lifeline allowance of 240 kWh at various consumption levels. The bill comparison includes the effect of the base rate increase authorized in this decision, the base rate increase of $0.00002 authorized for ZIP by Decision No. 92653 in Application No. 59537, and the ECAC rate reduction in Application No. 60007. The net effect of these three rate changes results in a reduction in total residential electric rates.

Introduction

PG&E requests authorization to increase its rates and charges for electric and gas service by $248.8 million and $66.9 million, respectively, outside of the Regulatory Lag Plan to offset the effects of operational and financial attrition on its opportunity to earn in 1981 the rates of return on common equity found reasonable for its Electric and Gas Departments in Decision No. 91107, PG&E's test year general rate decision. The application further explains that in order to provide PG&E with an opportunity to earn these net average returns on common equity in 1980 and 1981, the Commission authorized an allowance for operational attrition of $46 million for the two-year period by adding an additional 50 basis points (1/2 of 1 percentage point) to the return on common equity found reasonable for the test year. The application states that thus the Commission found reasonable returns on common equity of 13.90 percent and 14.10 percent for PG&E's Electric and Gas Departments, respectively.

In its application, PG&E contends that the unanticipated and extremely high inflation rate experienced in 1980 has rendered the estimates of expenses and cost of money adopted in the Commission's December 1979 Decision No. 91107 totally inadequate. PG&E claims that the inflation-caused expense increases have not only consumed the entire attrition allowance, but will cause PG&E's return on common equity for its CPUC jurisdictional portion of its Electric Department to drop to 9.51 percent in 1980 compared to 13.90 percent return found reasonable. Similarly, PG&E estimates that its return on common equity for its Gas Department will be 12.20 percent instead of the 14.10 percent found reasonable for 1980.

PG&E further alleges in its application that absent rate relief for 1981, PG&E's earnings on common equity will continue its steep decline to an estimated 5.26 percent and 6.86 percent for its CPUC jurisdictional Electric and Gas Departments operations, respectively. PG&E states that these returns on common equity for 1980 and 1981 are woefully short of the average returns on common equity the Commission intended PG&E should have the opportunity to achieve on the average in 1980 and 1981 for its gas and electric operations. PG&E further alleges that ignoring the revenue shortfall in 1980, it would require additional revenues of $331.7 million for its Electric Department and $89.2 million for its Gas Department to be made effective January 1, 1981, if they are to be offered the opportunity to earn in 1981 the intended 13.40 percent and 13.60 percent returns on common equity for its Electric and Gas Departments, respectively.

However, in order to expedite the processing of this application, PG&E said it limited its rate increase request to $315.7 million, $248.8 million for its Electric Department and $66.9 million for its Gas Department. PG&E states that the requested increase represents only 54 percent of the amount necessary if it were to achieve, over the two-year period, the average return on common equity found reasonable by the Commission and only 75 percent of the total $420.9 million which it would require in 1981 to earn the average return on common equity previously found reasonable.

PG&E further proposes that this request be subject to refund in the unlikely event that PG&E in 1981 should exceed the returns on common equity of 13.40 percent and 13.60 percent for its Electric and Gas Departments, respectively.

A prehearing conference was held on October 8, 1980 and evidentiary hearings commenced on October 27, 1980 before Administrative Law Judge K. Tomita in San Francisco. Public witness testimony hearings were held in San Francisco, Eureka, Fresno, Monterey, and San Jose on October 15, 16, 20, 21, and 22, 1980, respectively. There were nine days of evidentiary hearings concluding on November 24, 1980 at which time the matter was submitted subject to the filing of concurrent briefs on or before December 8, 1980. Pursuant to a staff request, the date for filing of briefs was extended to December 10, 1980.

In addition to the statements made at public witness hearings the Commission received many resolutions and letters from cities and counties opposing PG&E's application. The Commission also received many letters from individuals as well as numerous petitions with scores of signatures opposing any further increase in rates. Many of the letters and statements made reference to the inadequacy of lifeline volumes, the inability to pay spiraling electric and gas bills and the need for PG&E to absorb some of the burden of inflation by tightening its belt and by increasing productivity.

The Commission also received four letters from customers indicating that the bill insert giving notice of public witness hearings was not received until after the hearings were held. The Administrative Law Judge (ALJ) requested PG&E to review the matter. On November 3, 1980 PG&E responded to the ALJ's request by advising the ALJ that a machine operator had inadvertently resumed the mailing of the inserts during the period October 20 through October 23, 1980 after the initial mailing was completed, thereby resulting in a duplication in the mailing of inserts. PG&E states that the four customers who had protested had initially received a copy of the notice with their September bills mailed between September 18 through September 23. While the duplicate mailing was unfortunate and confusing, we have no reason not to believe PG&E's explanation.

PG&E's Position

In support of its application for rate relief PG&E presented three witnesses: Stanley T. Skinner, executive vice president; E. B. Langley, Jr., senior vice president, Operations; and Roy Davis, manager of the Revenue Requirements Department.

Skinner as chief financial officer of PG&E testified that the rate increase was necessary if PG&E's financial integrity is to be sustained. Without rate relief, PG&E's return on common equity in 1981 is estimated to fall to 5.45 percent and such low return, in Skinner's opinion, would almost certainly result in a downgrading of PG&E's securities and the inability of PG&E to raise a record $1.2 billion of additional capital to meet its financing requirements for 1981. He further testified that PG&E has now reached a point where it is unable to cut and defer expenses without affecting the quality and reliability of service, thereby making this request for an attrition offset necessary.

Langley testified as to the vigorous effort made by PG&E to control costs, cash flow, and keep its expenses within the estimates adopted by Decision No. 91107. Management efforts to control or reduce costs were centered in the following four areas: (1) control manpower levels, (2) defer maintenance expenses, where practicable, (3) delay or avoid capital investments, (4) continue ongoing efforts to maximize the efficiency of operations. Langley stated that many of the steps taken to control costs by deferring capital and maintenance expenditures do not result in permanent savings but represent deferrals of expenditures to a future and more costly period.

Langley further testified that although PG&E has effected and continues to attempt to effect cost savings, a revenue deficiency of $420,864,000 in 1981 cannot realistically be offset since PG&E's total maintenance and operations budget (excluding fuel costs), over which the company can exercise some control amounted to only $445 million in 1980. If PG&E were forced by budget constraints to continue deferment of maintenance and capital expenditures, similar to what was done in 1980, it would significantly increase the risk of impaired service due to breakdowns, would result in inability to provide service to new customers, and also would result in significant delays in rendering service in periods of peak demand.

Davis compared the 1980 test year results of operations adopted in Decision No. 91107 with estimated year 1980 and estimated year 1981 results of operations to demonstrate the failure of present rates to yield even close to the authorized rate of return. He then discussed the reasons for the inadequacy of present rates, giving specific examples. He also presented a simplified rate design proposal to collect the requested increased revenues.

Based on PG&E's results of operations studies for 1980 and 1981 the returns on common equity for the Electric and Gas Departments without rate relief would be as follows:

Rates of Return on Common Equity

	1980 Test Year	1980 Estimated	1981 Estimated
Electric Department	13.62%	9.41%	5.03%
Gas Department	14.10	12.20	6.86
Total Utility	13.74%	10.06%	5.45%

Davis further testified that if PG&E were to have an opportunity to **earn in 1981 the returns on common equity authorized by Decision No. 91107 it would require additional revenue increases of $331,686,000** for its Electric Department and $89,197,000 for its Gas Department, effective January 1, 1981. However, in order to expedite the proceeding PG&E is requesting only 75 percent of the increase necessary to earn the returns found reasonable in Decision No. 91107 or $248,765,000 and $66,884,000 for its Electric and Gas Departments, respectively.

Davis attributed the decline in earnings to the extraordinary inflation PG&E has experienced in 1980 and which it anticipates it will experience in 1981. Since the 1980 and 1981 cost estimates for its 1980 test year general rate case filing (Applications Nos. 58545 and 58546) were originally made in mid-1978, such cost estimates are significantly below actual and estimated costs for 1980 and 1981.

Davis provided specific illustrations of how costs have increased for PG&E over the levels anticipated in Decision No. 91107. The decision adopted a 7 percent escalation for 1980-81 for both labor and nonlabor expense items. Davis testified that PG&E's costs for labor are estimated to increase by 8.91 percent and 12.3 percent during 1980 and 1981, respectively. As shown in Table 1, PG&E's labor cost escalations above the level originally anticipated represent cost increases in 1981 of $33,099,000 and $16,317,000 for the Electric and Gas Departments, respectively. Similarly, PG&E's nonlabor expenses, originally forecasted to escalate at a 7 percent rate, are now estimated to escalate by 12.5 percent annually or by $49,762,000 and $21,206,000 for the Electric and Gas Departments, respectively.

Table 1

Pacific Gas and Electric Company
Selected Operational and Financial Attrition Items
For Rate Relief in Year 1981

(Dollars in Thousands)

Line No.		Electric Department Total Dept.	Electric Department CPUC Jurisdiction	Gas Department
	Operating and Maintenance Expense			
1	Labor Escalation[a]	$ 33,099	$ 32,000	$16,317
2	Nonlabor Escalation[b]	49,762	48,110	21,206
3	Steam Production Maintenance Program[c]	13,245	12,677	-
4	21 KV Conversion Program[c]	3,934	3,901	-
5	Flex Connectors[c]	-	-	3,702
6	Income Tax Depreciation[c]	24,252	23,163	-
	Rate Base			
7	Oil Inventory (Return on 6,751MBBL x ($34.93/BBL - $19.16/BBL))	17,861	17,125	-
8	Other (rate Base growth implied in Test Year 1980)	27,310	26,185	10,060
9	Total		$163,161	$51,285
10	Net Return (Line 9 ÷ 2.048509)		69,649	25,035
11	Net to Gross Multiplier		2.0642	2.0656
12	Operational Revenue Requirements (Line 10 x Line 11)		164,411	51,712
13	Financial Revenue Requirements[d]		19,285	6,350
14	Total Operational & Financial Revenue Requirements		$183,696	$58,062

(a) 1979 level (per 1980 test year decision) times (1.0891 x 1.123 -1.07)
(b) 1979 level (per 1980 test year decision) times (1.125 x 1.125 - 1.07)
(c) Additional item not included in test year 1980
(d) From Table 6, Exhibit 1, Tab R. Davis.

Davis also testified concerning other programs which affect PG&E's 1981 expenses and which were not incorporated in Decision No. 91107. They are the expanded steam production preventive maintenance program costing $13,245,000, 21 kV feeder conversion program of $3,934,000 and the gas flex connectors replacement program of $3,702,000. Also shown in Table 1 is an additional expense of $24,252,000 caused by the cessation of income tax depreciation allowance for certain pre-1954 facilities which are fully depreciated and was not recognized in the income tax computation for test year 1980.

Under the rate base caption PG&E lists $17,861,000 for the increase in return necessary to recover the estimated higher inventory price for oil on the adopted 1980 test year volume of 6.7 million barrels. It also lists increases in expense to cover rate base growth, other than for oil inventory, for the Electric and Gas Departments of $27,310,000 and $10,060,000, respectively.

In addition to the above items Davis testified that its embedded costs of long-term debt are estimated to increase from the 7.79 percent cost adopted for test year 1980 to 8.42 percent for 1981 and preferred stock costs from the adopted cost of 7.92 percent to 8.29 percent. The revenue requirements to recover these increased financing costs are shown as $19,285,000 and $6,350,000 for the Electric and Gas Departments, respectively.

Although Table 1 shows only the readily identifiable cost increase items, witness Davis testified that there have been additional cost increases in labor, materials, and services due to increased maintenance, production, transmission, and distribution activities as well as increased administrative, conservation, and customer-related activities.

PG&E proposes that the $248,765,000 increase in electric base rate revenues be obtained by adding a uniform 4.63 mill increase to the base rates of all electric rate schedules and contracts for the sale of energy with the exception of experimental Schedules Nos. A-20-A, A-20-B, A-20-C, A-20-D, and the contract for sale of energy to the state pumps of the Department of Water Resources. Also, specifically excluded was the Special Contract--City and County of San Francisco Supplementary Service.

For its Gas Department, PG&E proposes to recover the requested $66,884,000 increased revenues by increasing rates applicable to residential, commercial, and industrial Priority P1 and P2 service by $0.01634 per therm and by increasing resale rates Priority P1 and P2 by $0.01307 per therm. PG&E states that this proposal continues the 20 percent margin for Palo Alto consistent with Decisions Nos. 89315 and 89316 and gives the same increase to other resale customers as proposed for Palo Alto. PG&E's proposed gas rates and associated required modifications of the Gas Department Preliminary Statement were set forth in witness Davis' section of Exhibit 1.

Staff Position

The staff in its showing recommends that PG&E be granted a $117 million rate increase for the Electric Department and a $36 million increase for the Gas Department for 1981. Supporting its position the staff offered project manager Bruce M. DeBerry of the Revenue Requirements Division to testify on the staff-recommended attrition offset. In addition, Ward A. Mefford, senior utilities engineer of the Electric Branch offered testimony on the staff-recommended electric rate design and S. Robert Weissman testified as to the staff-recommended gas rate design.

Witness DeBerry defined attrition as occurring when there are insufficient increases in revenues and productivity to offset increases in expenses, including cost of money, and rate base after the test year, thus causing a decline in rate of return in the year following the test year. He stated that financial attrition addresses the issue of higher cost of money and recognizes the increase in a utility's weighted cost of long-term debt and preferred stock due to the issuance or retirement of senior securities and that operational attrition refers to changes in the other operating categories such as revenues, expenses, and rate base.

Witness DeBerry disagreed with PG&E's methodology to offset financial and operational attrition with a completely revised results of operations study for 1981, since such showing would require an extended amount of staff time to make a complete analysis similar to that required for a filing under the Regulatory Lag Plan. He stated that this application was filed on August 27, 1980 and under the Regulatory Lag Plan a decision would not be forthcoming until August 1981 which would be unreasonable considering that the company is seeking relief for the year 1981. He therefore recommended that attrition be calculated from a combination of the modification of the 1980 test year and the major components of expenses and rate base for 1981.

DeBerry modified test year 1980 for those specific areas for which actual experience indicated that Decision No. 91107 was substantially in error and proceeded to correct these amounts by using the updated information currently available. Using the modified 1980 test year as a base, DeBerry calculated what the effects of attrition can be expected to be on these specific elements of the company's revenues, expenses, and rate base in 1981. The staff's recommended attrition allowances for 1981 for the CPUC jurisdictional portion of its Electric and Gas Departments are as follows:

Summary of Operational and Financial Attrition
($000)

Year	Item	Electric Department (CPUC Jurisd.)	Gas Department
1980	Operational Attrition	$ 38,177	$ 6,489
1981	Operational Attrition	60,958	23,749
1981	Financial Attrition	17,883 1/	5,889 2/
	Total Attrition	$117,018	$36,127

1/ Based on CPUC jurisdictional rate base of $4,634,725 and net-to-gross multiplier of 1.2058, which includes tax deductibility of debt.

2/ Based on rate base of $1,525,135 and net-to-gross multiplier of 1.2066 which includes tax deductibility of debt.

Table 2

Calculation of Estimated Operational Attrition
For the Electric Department
Year 1980, 1981

Line No.	Item	Year 1980 Total (a)	Year 1980 CPUC Juris. (b)	Year 1981 Total (c)	Year 1981 CPUC Juris. (d)
		Gross Revenue Effect 1/ ($000)			
1	Revenues	$ -	$ 904	$ -	$(9,817)
2	Operating & Maintenance Expense				
3	Labor	4,130	3,983	28,969	28,007
4	Labor Overheads				
5	Pensions & Wage-Related Benefits	1,064	1,026	6,981	6,749
6	Payroll Taxes	315	304	2,217	2,143
7	Nonlabor Inflation	10,655	10,277	27,245	26,341
8	Correction for Deprec.Deduction on Income Tax	24,252	23,163		
9	Less: Ad Valorem Tax Decr.	(1,838)	1,768		
10	Investment Tax Credit			(3,235)	(3,090)
11	New Programs			2,200	2,123
12	Rate Base				
13	Oil Inventory			17,861	17,125
14	Other			27,310	26,185
15	Subtotal	$38,578	$37,889	$109,548	$95,766
16	Uncollectibles & Franchise Exp.	293	288	833	728
17	Total Op. Attrition 1980	$38,871	$38,177		
18	Subtotal 1981			$110,381	$96,494
19	Less: Attrition Adopted in Decision No. 91107			(35,536)	(35,536)
20	Total Op. Attrition, 1981			$ 74,845	$60,958

(Red Figure)

1/ Without uncollectibles and franchise expenses.

Table 3

Calculation of Estimated Operational Attrition
For the Gas Department
Year 1980, 1981

Line No.	Item	Year 1980	Year 1981
		Gross Revenue Effect 1/ ($000)	
1	Operating & Maintenance Expenses		
2	Labor	$2,036	$14,281
3	Labor Overheads		
4	Pensions & Wage-Related Benefits	514	3,372
5	Payroll Tax	162	1,105
6	Nonlabor Inflation	4,464	11,414
7	Less: Ad Valorem Tax Decrease	(757)	
8	Investment Tax Credit		(4,906)
9	Rate Base - Other		10,060
10	Subtotal	$6,419	$35,326
11	Uncollectibles & Franchise Expenses	70	385
12	Total Op. Attrition 1980	$6,489	
13	Subtotal		$35,711
14	Less: Attrition adopted in Decision No. 91107		(11,962)
15	Total Operational Attrition for 1981		$23,749

(Red Figure)

1/ Without uncollectibles and franchise expenses.

Table 4

Financial Attrition

Line No.	Decision No.91107-Test Year '80: Item	Capitalization Ratio (a)	Cost (b)	Weighted Cost-Electric (c) = (a) x(b)	Weighted Cost-Gas (d)=(a)x(b)
1	Long-Term Debt	45.92%	7.79%	3.58%	3.58%
2	Preferred Stock	14.57	7.92	1.15	1.15
3	Common Equity - Electric	39.51	13.40	5.29	-
4	Gas	39.51	13.60	-	5.37
				10.02%	10.10%
	Average Estimated Test Year 1981				
5	Long-Term Debt	45.92%	8.37%	3.84%	3.84%
6	Preferred Stock	14.57	8.29	1.21	1.21
7	Common Equity - Electric	39.51	13.40	5.29	-
8	Gas	39.51	13.60	-	5.37
				10.34%	10.42%

Electric Department Attrition = 10.34% - 10.02% = .32%

Gas Department Attrition = 10.42% - 10.10% = .32%

Tables 2 and 3 show the staff calculation of the estimated operational attrition for 1980 and 1981 for the Electric and Gas Departments, respectively. Table 4 shows the staff calculation of financial attrition.

The labor attrition for 1980 was computed as the difference between the 7 percent increase adopted in Decision No. 91107 and the actual wage increase for 1980 of 8.91 percent. For 1981 the labor attrition recognizes the difference between the 1980 base (1979 wages x 1.0891) and the 1981 estimate (1979 wages x 1.0891 x 1.123). The 7 percent labor and nonlabor inflation included in Decision No. 91107 as an attrition allowance is deducted on Line 19 of Table 2. Labor overheads were adjusted by a similar percentage for 1980 and 1981. Inflation on the nonlabor component of operations and maintenance expenses was estimated at 12.5 percent per year for 1980 and 1981 compared to the 7 percent estimate used in Decision No. 91107.

The staff also made an adjustment in Table 2 for year 1980 to correct for improper depreciation deductions on pre-1954 electric plant which had been fully depreciated but was used in Decision No. 91107 calculations, thereby understating income tax expense. It also made an adjustment for lower ad valorem tax expenses for 1980. For 1981, the staff allowed $1,700,000 for the Preventive Maintenance Program and $500,000 for the 21 kV conversion program, substantially below the amount claimed by PG&E. It also made adjustments in 1981 for additional investment tax credit, for the increase in rate base oil inventory due to the increase in average cost per barrel of oil from $19.16 to $34.93, and also for the growth of rate base from 1980 to 1981.

Similar adjustments are made in Table 3 for the calculation of estimated attrition for the Gas Department in 1980 and 1981.

Table 4 shows the staff computation of financial attrition for 1981 due to the estimated increase in the embedded cost of long-term debt and preferred stock in 1981 over Decision No. 91107 costs. The staff estimates the effect of financial attrition to be .32 percent on rate base for 1981.

Staff Electric Rate Design

Staff witness Mefford took exception to PG&E's electric rate design proposal as not being consistent with Decision No. 92249, dated September 16, 1980. According to witness Mefford, Decision No. 92249 requires a three-tier domestic rate structure with the same percentage difference between the lifeline tier and the second tier as between the second tier and third tier rate. He therefore recommended, assuming that PG&E's rate request is granted in whole, that the domestic lifeline base rate be increased by $.00448/kWh and the domestic nonlifeline base rate be increased by $.00482/kWh. These increases result in an equal percentage difference in total rates of 35.1 percent between lifeline and second tier and between second and third tier rates. For all other classes he recommends a uniform $.00463/kWh increase in energy base rates for the purposes of this proceeding.

Staff Gas Rate Design Proposal

Staff witness Weissman set forth the following criteria used in developing his gas rate design.

(a) No increases in monthly customer charge.

(b) The residential Tier I (lifeline) rate should be referenced to the average cost of gas.

(c) The residential Tier II rate shall be referenced to the G-2 rates.

(d) The residential Tier III rates shall be the highest rate on the system.

(e) The G-2 (nonresidential P1 and P2) rate shall be referenced to the average system rate, excluding lifeline.

(f) The resale rates (excluding SoCal Gas and Palo Alto) shall be referenced to the average system cost of gas.

(g) The resale rate for Palo Alto is based on the 20 percent differential between gross revenues and purchased gas expense as $0.0458/therm of Palo Alto's purchases as determined at page 18 of Decision No. 89315 dated September 6, 1978.

Witness Weissman then proceeded to set forth a rate design using the guideline criteria established from Commission Decisions Nos. 91107, 91108, and 91720 as well as a rate design which he recommends be adopted based on the staff-recommended criteria. Table 5 shows that under the staff-recommended gas rate design (cols. f & g) residential lifeline rates will experience a 12 percent increase, Tier 2 rates a 1.8 percent decrease and Tier 3 rates a 0.5 percent increase over rates in effect at May 4, 1980.

TABLE 5

Pacific Gas and Electric Company

RECOMMENDED RATE DESIGN

Year 1981 Estimated

Line No.	Class of Service	Adjusted CH and Therms (A)	Revenues at 5-4-80 Effective Rate (B)	Revenues at 5-4-80 M$ (C)	Guidelines Rate ($/th) (D)	Guidelines Revenue (M$) (E)	Recommended Rate ($/th) (F)	Recommended Revenue (M$) (G)	Increase M$ (H)	Increase % (I)
1	Residential									
2	Cust. No.: Lifeline	32,129,610	$1.20	$ 38,556	$1.20	$ 38,556	$1.20	$ 38,556	$ -	- %
3	Non-Lifeline	632,340	1.20	759	1.20	759	1.20	759	-	-
4	Total	32,761,950		39,315		39,315		39,315		
5	Tier I	1,602,553,000	.29032	165,253	.297	475,958	.32526 1/	521,246	55,993	12.0
6	Tier II	503,569,000	.56705	284,968	.58221	296,694	.551	283,847	(5,121)	(1.8)
7	Tier III	137,571,000	.66698	91,757	.68142	112,332	.67	92,173	416	.5
8	Total	2,249,723,000	.37604	845,978	.37649	[illegible]	.39803	[illegible]	51,288	6.1
9	Nonresidential (P1 & P2)									
10	Cust. No.	2,107,668	1.20	2,529	1.20	2,529	1.20	2,529	-	-
11	Sales	1,776,680,000	.44562	791,724	.45327	806,559	.454	806,613	14,889	1.9
12	Total			794,253		[illegible]		809,142	14,889	1.9
13	Nonresidential (P3 & P4)									
14	G-50 (Sales)	902,280,000	.45874	413,913		413,913	.45874	413,913	-	-
15	G-52 (Sales)	723,490,000	.42874	310,189		310,189	.42874	310,189	-	-
16	G-55 A (Sales)	-	.40366	-		-	.40366	-	-	-
17	Total	1,625,770,000		724,102		724,102		724,102	-	-
18	Steam Electric (P5)									
19	G-55	1,601,650,000	.40366	646,522		646,522	.40366	646,522	-	-
20	G-56 (SoCal Ed)	293,030,000	.40366	118,284		118,284	.40366	118,284	-	-
21	Total	1,894,680,000		764,806		764,806		764,806	-	-
22	Resale									
23	G-60 Lifeline	12,776,000	.28032	3,582	.297	3,794	.32526	4,156	574	16.0
24	Non-Lifeline	25,134,000	.40358	10,142	.41414	10,414	.39803	10,004	(138)	(1.4)
25	Total	37,910,000	.36202	13,724	.37478	14,208	.37352	14,160	436	3.2
26	Other Resale	48,430,000	.3383	16,068	.35716	17,297	.35389	17,133	271	1.6
27	Total Resale	86,340,000		30,592		31,505		31,293	701	2.3
28	SoCal Gas	591,300,000	.43087	254,773		254,773		254,773	-	-
29	Total System w/LL	8,024,493,000		3,453,819		3,515,573	.42808	3,520,703	66,884	1.9
30	Total System w/o LL	6,621,940,000		2,950,010		3,001,059	.44713	2,960,901	-	-

(Negative)

1/ At cost of gas, LL rate would be 0.35352. The 0.32526 rate is halfway between the guideline and the cost of gas rates.

Toward Utility Rate
Normalization (TURN) Position

On October 8, 1980 TURN filed a motion to dismiss the application on the ground that no financial emergency exists to justify an emergency interim increase under the Regulatory Lag Plan. During the hearings held in October and November 1980, TURN actively participated in the proceedings through cross-examination of the various witnesses and the filing of brief.

TURN argues that all of the grounds cited by TURN in its motion to dismiss continue to require dismissal of the application. TURN argues that (1) the application lacks sufficient allegations of financial emergency to justify interim relief, (2) PG&E will receive a general rate increase on January 1, 1982, and (3) the establishment of Supply Adjustment Mechanism (SAM), Gas Cost Adjustment Clause (GCAC), and Energy Cost Adjustment (ECAC) cost offset procedures has materially alleviated PG&E's financial vulnerability.

TURN agrees that the real reason for the filing of the application is inflation. However, TURN argues that PG&E must tighten its belt, as all other sectors of society must, in order to combat inflation. TURN further states that although PG&E's current estimate of inflation for 1981 is 9.8 percent which is only 3.6 percent above the estimate made in 1978 for 1981 inflation, PG&E seeks a base rate increase of 19.3 for its Electric Department and 12.5 percent for its Gas Department. TURN insists a signal must be sent to PG&E that it cannot simply overspend its budget and then come to the ratepayers, who must live within their budgets, complaining of dire need.

Should the Commission grant any rate increase in this proceeding to PG&E, TURN argues that any increase authorized must be limited to offsetting specific attrition items reviewed by the staff. TURN argues that to allow a rate increase based only on PG&E's analysis of 1981 results of operations would be an abdication of responsibility by the Commission.

TURN disagrees with the staff calculation of 1981 Electric Department attrition since the staff fails to adopt PG&E's estimate of other revenues for 1981, although it adopts PG&E's estimate for 1980 and merely uses the 1980 level of other revenues for 1981, thereby understating other revenues by $10.6 million. TURN also disagrees with the staff attrition computation since the staff does not offset the 1981 attrition calculation by the financial attrition allowance granted by the Commission in Decision No. 91107 similar to its treatment of the operational attrition allowance granted in Decision No. 91107. TURN states that Decision No. 91107 granted two financial attrition allowances: (1) 12 basis points on return on rate base through the adoption of year-end cost factors for long-term debt and preferred stock and (2) 16 basis points on return on rate base by adopting Finding 4 1/ or a combined total of 28 basis points on return on rate base. Using the adopted rate bases and appropriate net to gross multipliers TURN calculates the financial attrition allowance in Decision No. 91107 to be $25,187,000 for electric and $8,477,000 for gas, or a total of $33,664,000. TURN further computes the actual financial attrition to be $21,175,000 for electric and $6,973,000 for gas for 1981 and that PG&E has been overcompensated for financial attrition by $4,012,000 for electric and $1,504,000 for gas. TURN contends that instead of a financial attrition allowance of $17,883,000 and $5,889,000 shown by the staff the aforementioned overcompensation of $4,012,000 and $1,504,000 should be deducted. TURN further comments in its brief that the staff figures for labor escalation should be reduced by $25 million to reflect personnel cutbacks and also reduces staff attrition figures to reflect $80 million in belt-tightening measures undertaken by PG&E, thereby shrinking attrition to approximately $8 million.

1/ Finding 4 increased the return on common equity from 13.90 to 14.10 percent or by 20 basis points. A 20-basis-point increase in return on common equity increases the rate of return on rate base by 8 basis points. TURN's 16 basis points represent 8 basis points for each of the years 1980 and 1981.

TURN does not object to the PG&E and staff recommendation that any rate increase be spread to the various customers classes on an equal cents per kWh basis. TURN does recommend that the 38 percent differential between the three residential tiers be maintained. TURN points out that staff witness Mefford recommended a 35.1 percent differential only because maintenance of the 38 percent differential would require either three-tier base rates or an adjustment of ECAC rates. In OII 77 the staff agreed with PG&E's proposal that a uniform residential base rate be adopted with all tier differentials to be reflected in ECAC rates. TURN also points out that staff witness Mefford also testified that Application No. 60007 involving another PG&E ECAC proceeding will be up for decision at approximately the same time as this matter and that such ECAC proceeding relates to a $178 million rate decrease and should the two matters result in a single rate adjustment witness Mefford had recommended the retention of the 38 percent differential.

TURN advocates that any gas rate increase authorized in this proceeding should be allocated according to the Commission's adopted guidelines. It finds both PG&E and staff gas rate design proposals inadequate because they do not follow the criteria set forth in Decision No. 91107 and refined in Decision No. 91720. TURN argues that low priority rates be reviewed and adjusted in this proceeding because a gas cost offset proceeding may not take place for another six months. TURN argues that G-55 and G-57 rates are currently below guideline levels resulting in PG&E's high priority gas customers subsidizing the electric customers of PG&E and Edison. TURN further argues that there is no justification for current G-55 and G-57 rates being 2½ cents less than G-52 rates if both schedules are referenced to the current market price for No. 6 low-sulfur oil. If G-55 and G-57 rates are set at the same level as G-52 rates, TURN argues that the additional $47.5 million revenue generated would more than offset the $36 million increase the staff is recommending for the Gas Department.

TURN strenuously objects to witness Weissman's proposal to reference the lifeline gas rates to the average cost of gas and the assignment of 83.7 percent of the proposed revenue increase to lifeline. TURN argues that the staff proposal is inappropriate in an abbreviated proceeding such as this. It strongly urges the Commission to reject witness Weissman's proposal and urges that any rate increase granted in this proceeding conform to the Commission's adopted guidelines.

City of Palo Alto's
(Palo Alto) Position

Palo Alto's utilities rate analyst, W. Randy Baldschun, testified on the need to update the residential lifeline sales data to calculate the correct resale gas rate to be charged Palo Alto under Schedule No. G-60. Baldschun testified that the 33.7 percent lifeline percentage under the current resale schedule is no longer valid and does not reflect the current trend toward reduced consumption by Palo Alto gas customers. For the period July 1, 1979 through June 30, 1980, he testified that Palo Alto's recorded lifeline sales constituted 35.3 percent of total sales and the lifeline percentage for 1981 is estimated to be 36.0 percent. Palo Alto requests that the Commission adopt a lifeline percentage of 36. percent for Palo Alto resale Rate Schedule G-60, or in the alternative a 35.3 percent lifeline percentage based on recorded lifeline sales data for fiscal year 1979-80 be adopted.

Palo Alto argues that failure to update Palo Alto's lifeline percentage has the deleterious effect of financially penalizing Palo Alto's conservation efforts as well as reducing Palo Alto's operating margin below its entitled 20 percent. Palo Alto further argues that the Commission has adjusted the lifeline percentages of PG&E's other resale customers based upon current sales data submitted by these utilities.

General Motors Corporation's
(General Motors) Position

General Motors, while not taking a position on the validity of the attrition allowance concept or the amount of revenue the Commission should authorize, if any, does express its concern with the off-hand treatment given to rate design by staff and applicant. General Motors strongly opposes the institutionalization of this kind of interim proceeding since it is impossible to properly address the rate design issue in an abbreviated proceeding, even though it is a general rate increase proceeding rather than a fuel cost offset case. General Motors therefore argues that a utility's attrition problems should be dealt with in the context of a general rate proceeding in which rate design questions relating to additional revenues offsetting attrition can be considered in an appropriately deliberate fashion.

California Manufacturers
Association's (CMA) Position

CMA does not take issue with PG&E's request for rate relief in this proceeding nor with the rate design proposals of PG&E or the staff. CMA concurs with PG&E and the staff that application of the Commission's rate design guidelines permits no present increase in the rates for gas sold to PG&E's Priority 3 and Priority 4 customers.

Position of Cut Utility
Rates Today (CURT)

CURT supports TURN in its motion to dismiss this application. If the application is not dismissed CURT requests that all salaries over $50,000 per year be reduced to such level, that the revenue request be reduced by $43 million representing the amount dividends were increased in 1980 and that commuter driving of company vehicles by employees be reduced resulting in alleged savings of $7.1 million.

CURT on November 21, 1980 filed a motion to dismiss PG&E's application or, in the alternative, to grant additional public protest hearings on the grounds that Section 454a has been violated by insufficient notice of hearings and also a motion against PG&E for vexatious and oppressive conduct against prospective witnesses. CURT in its brief accuses the ALJ of bending over backwards in ignoring patent errors and obfuscation by PG&E. CURT also states in its brief that it is submitting a short brief in the belief that the decision will be a rubber stamp of the apparent desires of Mr. Abramson, ALJ Tomita, and the Commission.

Discussion

Operational Attrition

PG&E claims that adoption of PG&E's results of operations is preferable to the staff showing since (1) it is based on a showing that more completely reflects expenses PG&E expects to incur in 1981; (2) it will enable PG&E to earn a return on common equity that begins to approach the return found necessary by the Commission to maintain the company's financial credibility and integrity; (3) it will enable PG&E to retain its Aa/AA-bond ratings; (4) PG&E is requesting 75 percent of the revenue increase it actually needs, therefore, it ensures that PG&E will have more than ample incentive to operate efficiently to attempt to achieve the 13.40 percent return on common equity; and (5) the Commission will have an opportunity to review the reasonableness of the base rates put into effect in 1981 after the staff completes its study in the 1982 test year rate case sometime after the first quarter of 1981 and again in 1982 based on recorded 1981 results.

The Commission is aware of the unprecedented inflation experienced in 1979 and 1980 and the serious inroad such inflation has on PG&E's ability to earn the returns on common equity authorized in Decision No. 91107. Since PG&E was only in its eighth month of its test year and was predicting returns on common equity for 1981 of 5.03 percent and 6.86 percent for its Electric and Gas Departments, respectively, we decided to go to hearings on this application.

While we believe consideration should be given for some rate relief in this proceeding, we do not agree that rate relief based on PG&E's 1981 results of operations study is reasonable even if such request represents only 75 percent of the amount purportedly necessary to earn the authorized returns on common equity. To grant such a request without a comparable results of operations study by the Commission staff would be comparable to federal agency type regulation, which we have rejected in the past. It would also defeat the purposes of our Regulatory Lag Plan.

Based on our manpower capabilities, we believe the staff methodology of calculating the effects of operational and financial attrition from a combination of the modification of the 1980 test year and on the major components of expenses and rate base for 1981 is appropriate. The staff approach does not require a complete results of operations study which would be impossible to undertake and still enable us to recognize inflationary increases in costs which could not be perceived at the time PG&E, the staff, and other parties were preparing their respective results of operations studies in connection with Applications Nos. 58545 and 58546 which resulted in Decision No. 91107. As stated by witness DeBerry, these are increased costs the staff would have adopted and which the Commission would most likely have authorized if such information were available at the time the studies were being undertaken. We believe the adoption of the staff methodology will give PG&E some valuable relief in 1981 from the effects of inflation.

While we concur with the staff methodology, we do not necessarily concur with all of the staff computations for attrition. We believe the staff calculations of operational attrition for 1980 for both Electric and Gas Departments are reasonable and will adopt such calculations in our computation as they affect 1981. For 1981, we believe the staff estimate of customer sales revenues is overly optimistic and fails to adequately recognize the effects of substantial rate increases and the adoption of three-tier inverted rates on the consumption pattern of residential customers. On the other hand, we believe that PG&E's customer sales revenue estimates for 1981 which are approximately $30 million less than the level adopted in Decision No. 91107 are too conservative. We are of the opinion that holding customer sales revenues at the staff estimated level for 1980, which is $10.6 million less than the level adopted in Decision No. 91107, and other revenues at the staff estimated level for 1980 and 1981, which is $9.7 million higher than the level adopted in Decision No. 91107 are reasonable revenue estimates for 1981. We do not agree with TURN that we should adopt the higher PG&E estimates for other revenues for 1981 since the increase in other revenues is due to higher steam sales,which are offset by increased fuel expenses not fully considered in this proceeding, and not covered by the ECAC process.

While we agree that reducing ad valorem taxes for 1980 to reflect the adoption of a lower market value by the State Board of Equalization for the 1980-81 fiscal year is appropriate, we concur with PG&E that maintaining ad valorem taxes for 1981 at the same level is unreasonable since it fails to recognize the increase in rate base in 1981. We will adjust ad valorem taxes for 1981 to reflect the increase in rate base.

A major area of difference between PG&E and the staff is the level of new programs which should be recognized in this proceeding. PG&E estimates for 1981 include $13,245,000 for the steam preventive maintenance program, $3,934,000 for the 21 kV conversion program for its Electric Department, and $3,702,000 for the gas flex connector replacement program for the Gas Department.

The staff recommends that $1,700,000 be allowed for the preventive maintenance program and $500,000 for the 21 kV conversion program. The staff recommends no increase for the gas flex connector replacement program since it considers such program a continuing one with no change in activity level.

PG&E argues that its steam preventive maintenance program is in response to Decision No. 91751 in OII 43 involving an investigation into possible electrical supply shortages of electric public utilities and any emergency measures to provide for necessary mutual assistance. The decision directs PG&E to file preventive maintenance plans designed to substantially reduce forced outages during periods of peak electrical demand. The staff argues that the company has been incurring expenses for preventive maintenance since at least 1973. It further argues that the number of generating unit overhauls,which is the primary concern of this program,vary significantly from year to year and without a thorough analysis of the company's plan for 1981, the Commission has no reliable way to test the reasonableness of PG&E's request.

We are aware of our language in Decision No. 91751 expressing our views of the need to accelerate steam preventive maintenance programs to reduce the chance of forced outages. However, PG&E has failed to convince us that the $13,245,000 claimed in Exhibit 1, Table 4, represents a new level of activity for steam preventive maintenance envisioned by Decision No. 91751. We will therefore adopt as reasonable the $1.7 million increase recommended by the staff.

For the 21 kV conversion program we will adopt the $500,000 allowance recommended by the staff. We agree with the staff that this new program has not yet been fully implemented and that there will be relatively little activity for this program in 1981.

We also agree with the staff that the gas flex connector replacement program is a continuing program rather than a new program and therefore will not adopt an extra allowance in this proceeding.

Except for the items discussed in the earlier paragraphs we find the staff's calculation of operational attrition for the Electric and Gas Departments for 1981 relating to labor, labor overheads, payroll taxes, nonlabor inflation, investment tax credit, and rate base increases reasonable. We also concur with the deduction of operational attrition adopted in Decision No. 91107.

Financial Attrition

For financial attrition the staff calculated the difference between the weighted cost of long-term debt and preferred stock adopted in Decision No. 91107 and the estimated weighted cost of long-term debt and preferred stock for average year 1981. As shown in Table 4 the financial attrition was calculated to be .32 percent on rate base. TURN argues that a deduction for financial attrition allowed in Decision No. 91107 (calculated by TURN to be $25,187,000 for the Electric Department and $8,477,000 for the Gas Department) should be deducted similar to the operational attrition deduction made by staff. TURN's computation for estimated financial attrition to be experienced differs from the staff in that TURN takes the weighted cost of long-term debt and preferred stock for average year 1981 and deducts the weighted cost of long-term debt and preferred stock for average year 1980 or a difference of 38 basis points on return on rate base. Based on TURN's calculations the following over-allowance for financial attrition should be used to reduce any attrition offset allowance:

	Electric	Gas
Financial Attrition Allowed in Decision No. 91107	$25,187,000	$8,477,000
Financial Attrition Expected to be Experienced	21,175,000	6,973,000
Financial Attrition Over-Allowed	$ 4,012,000	$1,504,000

While we concur with TURN that Decision No. 91107 provided for financial attrition allowance, we do not agree with TURN's calculations.[2/] In considering the attrition allowance for 1981 we concur with the staff's computation of 32 basis points on rate base or the difference between the weighted cost of long-term debt and preferred stock adopted in Decision No. 91107 and the weighted cost of long-term debt and preferred stock estimated for average 1981. There is no need to measure the financial attrition experienced between average year 1980 and year-end 1980 since we are measuring the expected increase in the weighted cost of long-term debt and preferred stock for average year 1981 over the weighted costs adopted in Decision No. 91107 which proved to be inadequate even for 1980. We will therefore adopt the staff financial attrition allowance of $17,833,000 for the Electric Department and $5,889,000 for the Gas Department.

2/ TURN's calculations appear only in its brief and is argument and not a part of the evidence in this proceeding.

While we also concur with TURN that a deduction for financial attrition allowed in Decision No. 91107 is appropriate, we do not agree with TURN's calculation of the amount to be deducted. TURN argues that the financial attrition allowance made in Decision No. 91107 resulting from the adoption of end-of-year weighted cost of long-term debt and preferred stock should be used as a deduction. We believe TURN's argument is erroneous since the average year 1980 cost of long-term debt and preferred stock already exceeds the weighted costs adopted in Decision No. 91107 and furthermore in computing our expected financial attrition allowance we are only recognizing the expected financial attrition in 1981 over and above the level adopted in Decision No. 91107. With respect to the 20 basis point increase allowed in return on common equity, we believe the proper amount to be deducted is the revenue effect of the amount relating to the year 1981 or $7,542,000 for the Electric Department and $2,483,000 for the Gas Department.

The operational attrition allowance provided in Decision No. 91107 differs from the financial attrition allowance in that a 50 basis point increase in return on common equity was provided for 1980 and 1981 to cover expected increases in labor and nonlabor costs in 1981 over the test year 1980 levels adopted in Decision No. 91107. The 20 basis point increase in return on common equity for financial attrition was provided to cover the risk of debt costs and preferred stock costs exceeding the weighted costs adopted in the decision in each year of the 1980 test year cycle.

Adopted 1981 Operational and
Financial Attrition Allowance

Our adopted 1981 operational and financial attrition allowance over adopted test year 1980 is set forth in Table 6. It will provide for a $121,075,000 rate increase for PG&E's CPUC jurisdictional electric operations and $34,193,000 for its gas operations.

PG&E argues that the staff-recommended attrition allowance for 1981 of $153,145,000 for the Electric and Gas Departments is inadequate since such allowance would only provide PG&E's CPUC jurisdictional Electric Department operations an 8.29 percent return on rate base and an 8.13 percent return on common equity, and for the Gas Department an 8.88 percent return on rate base and a 9.59 percent return on common equity. These returns are based on PG&E's estimated results of operations studies for 1981. The staff argues that use of such ratios is meaningless since it assumes that PG&E's figures are correct and that after making what the staff considers "tip of the iceberg" adjustments to PG&E figures the returns on common equity would increase to 9.95 percent for CPUC jurisdictional electric operations and to 10.66 percent for the gas operations.

Table 6

Pacific Gas & Electric Company
1981 Operational & Financial Attrition Over
Adopted Test Year 1980
($000)

Item	Revenue Requirements: Electric CPUC Juris.	Revenue Requirements: Gas
Revenues	$ 904	$ -
Operating & Maintenance Expenses		
Labor	31,990	16,317
Labor Overheads		
Pensions and Wage-Related Benefits	7,775	3,886
Payroll Tax	2,447	1,267
Nonlabor Inflation	36,618	15,878
Ad Valorem Taxes	(73)	(214)
Correction for Depreciation Deduction in Income Taxes	23,163	-
Investment Tax Credit	(3,090)	(4,906)
New Programs		
Steam Power Maintenance Program	1,641	-
21 KV Program	482	-
Rate Base:		
Oil Inventory	17,125	-
Other	26,185	10,060
Subtotal	$145,167	$42,288
Uncollectibles and Franchise Expense	1,104	461
Subtotal	$146,271	$42,749
Less Op. Attrition Adopted in D.91107	(35,536)	(11,962)
Total Oper. Attrition 1981	$110,735	$30,787
Financial Attrition	17,883	5,889
Less Financial Attrition D.91107	(7,542)	(2,483)
Total Financial Attrition 1981	10,341	3,406
Total Operational & Financial Attrition for 1981	$121,076	$34,193

(Red Figure)

In authorizing increases of $121,076,000 for the CPUC jurisdictional Electric Department operations and $34,193,000 for the Gas Department, we are certain that such increases will not enable PG&E to earn in excess of the last authorized returns on common equity found reasonable in Decision No. 91107. We are also equally certain that the $155,269,000 revenue increase will be of substantial assistance in offsetting the effects of inflation in 1981.

We have been persuaded in this proceeding that a combination of factors external to our Decision No. 91107, coupled with items within that decision which were overlooked or differed significantly from actual experience, have resulted in a situation which will cause a serious deterioration in PG&E's return on equity in 1981 without rate relief on our part.

Since Decision No. 91107, we have taken steps to account for attrition by way of a straightforward calculation of its effect and by provision of a step rate increase at the beginning of the second year of the two-year regulatory lag interval between general rate cases. (Decisions Nos. 92497 and 92549.) While we attempted in Decision No. 91107 to recognize and account for attrition, both operational and financial, we now can see that we did so in an imperfect manner. We expect this type of interim relief for any of our major utilities to be the last necessary.

Providing utility service is not a risk-free business and this Commission was not established to guarantee a specific level of earnings to companies we regulate. We have been innovative in establishing procedures that allow California utilities a fair and reasonable opportunity to earn what we authorize. PG&E's next general rate proceeding with test year 1982 will undoubtedly provide for a step rate increase commencing with 1983. PG&E, and all our other regulated companies, should be on notice that we do not expect to increase, through subsequent rate proceedings, the level of those second-year rates, absent a true emergency situation.

Higher levels of inflation, higher negotiated wage expenses, and newly discovered ratemaking items will not, in themselves, constitute such an emergency. Utility management must bear the burden of solving these problems just as the residential consumer and the business consumer must find ways to live within their means. We will not, and truly cannot, isolate the utility industry from the adverse economic conditions that affect its customers and other industry with which it competes for capital. We will provide, and have provided, a reasonable opportunity for profit. Thereafter, management must do its part. While we are not unmindful of the record evidence of economies in operation that PG&E has already implemented, neither are we unaware that such action must be continuous and must be emphasized even more strongly during periods of high inflation.

Electric Rate Design

On January 6, 1981, the Commission in Decision No. 92572 in OII No. 77 adopted the concept of uniform electric residential base rates to become effective on May 1, 1981. Under the uniform base rate concept all of the tier differentials in residential rates will be reflected in ECAC rates. In moving toward the uniform base rate concept in this proceeding we will adopt PG&E's proposal for a uniform cents per kWh increase to the base rates of all electric rate schedules and contracts for the sale of energy with the exception of experimental Schedules Nos. A-20-A, A-20-B, A-20-C, A-20-D, the contract for sale of energy to the state pumps of the Department of Water Resources and Special Contract--City and County of San Francisco Supplementary Service. Based on the inflation allowance increase we are authorizing in this decision of $121,076,000 an increase in base rates of $0.00216 per kWh will be required.

Gas Rate Design

PG&E proposed that the requested increase in gas revenues be obtained by increasing rates applicable to residential, commercial, and industrial Priority P1 and P2 service by $0.01634 per therm. For resale rates (Priority P1 and P2), PG&E proposed a $0.01307 per therm increase which continues the 20 percent margin for the City of Palo Alto consistent with Decisions Nos. 89315 and 89316, and also gives the other resale customers the same increase proposed for Palo Alto. PG&E states that its approach is simple and recommends that rates based upon any guideline approach be deferred to a Gas Adjustment Clause (GAC) case when the magnitude of the increase is greater.

The staff-recommended gas rate design proposal differs substantially from PG&E's proposal or the guideline approach. While there may be some merit to the staff proposals, we do not believe it would be appropriate to make any major gas rate design changes, particularly in connection with lifeline residential rate design, in this expedited proceeding. We will therefore adopt rates based on our gas rate design guidelines.

TURN argues that existing Steam Electric Schedules G-55 and G-57 fall far short of the guidelines compared to PG&E's purchase price of No. 6 low-sulfur fuel oil or the current market price of such fuel oil. TURN argues that increasing G-55 and G-57 rates to the G-52 rate level would generate $47.5 million in additional revenues or more than the increase in gas revenues recommended by the staff. TURN criticizes both PG&E and staff gas rate designs for failure to propose an increase in rates based on alternate fuel prices. While we believe that this matter can be better considered in a GAC proceeding when the total revenue effect will probably be significantly higher and where the issues involving alternate fuel prices and the appropriate level of G-52, G-55, and G-57 rates can be appropriately reviewed and revised if necessary, some increase in G-55 and G-57 steam electric rates is now in order.

We will not adopt Palo Alto's proposal to adjust its lifeline sales percentage in this proceeding, but defer such issue to the 1982 test year general rate proceeding in Application No. 60153. Increases in resale rates for Palo Alto as well as other resales will be based on the existing guidelines adopted by this Commission.

Findings of Fact

1. PG&E has experienced unprecedented inflationary increases in costs in 1980 and will continue to experience higher costs in 1981 which were not considered in setting rates in Decision No. 91107 in Applications Nos. 58545 and 58546.

2. PG&E needs additional revenues in 1981 if it is to be able to raise the necessary capital to finance its construction program necessary to provide reliable service to its customers.

3. Absent rate relief PG&E will experience a substantial shortfall in revenue requirements which would cause PG&E's return on common equity to seriously decline in 1981.

4. PG&E's request for $248,765,000 increase in CPUC jurisdictional electric revenues and $66,884,000 increase in its Gas Department revenues based on its 1981 results of operations study is unreasonable for an attrition offset proceeding outside of the Regulatory Lag Plan since the staff is unable to prepare a 1981 results of operations study within the necessary time frame in which applicant seeks rate relief.

5. The methodology employed by the staff of calculating the effects of inflation by modifying test year 1980 for inflationary increases and then calculating the effects of attrition on the major components of expenses and rate base for 1981 is reasonable.

6. Use of the staff methodology enables the Commission to provide PG&E with substantial rate relief in early 1981 and also enables the Commission to preserve its Regulatory Lag Plan program.

7. Operational and financial attrition offset allowances increasing CPUC jurisdictional electric revenues by $121,076,000 and Gas Department revenues by $34,931,000 as set forth in Table 6 are reasonable.

8. The increases authorized herein will not result in PG&E's earning a return on common equity in 1981 in excess of the 13.40 percent found reasonable for the Electric Department and the 13.60 percent found reasonable for the Gas Department in Decision No. 91107.

9. In computing financial attrition for 1981 it is reasonable to compare the weighted cost of long-term debt and preferred stock adopted in Decision No. 91107 with the estimated weighted cost of long-term debt and preferred stock for average year 1981.

10. It is reasonable in computing financial attrition for 1981 to offset the effect of the 20 basis point increases in return on common equity allowed in Decision No. 91107 relating to the year 1981 for possible higher capital costs from such financial attrition allowance.

11. It is unreasonable to deduct the 20 basis point increases in return on common equity relating to 1980 from such 1981 financial attrition calculation, since it pertains to 1980 and we are not attempting to make PG&E whole for unforeseen expenses in 1980 since this would be considered retroactive ratemaking.

12. For the purposes of this expedited proceeding it is reasonable to spread the $121,076,000 increase authorized for the Electric Department by increasing the energy charge of the base rates by $0.00216 per kWh for all rates, schedules, and contracts except for Schedules Nos. A-20-A, B, C, and D, the State Pump Contract with the Department of Water Resources and Special Contract--City and County of San Francisco Supplementary Service. The increasing of base rates on a uniform cents per kWh basis is consistent with the adoption of uniform residential base rates in Decision No. 92572 in OII No. 77. (Note. In our companion ECAC decision in Application No. 60007 to be signed with this order, we will adjust our ECAC rates to maintain the same 38 percent differential in total residential electric rates for the three residential tiers as adopted in Decision No. 91721 and maintained in Decision No. 92249.)

13. For the purposes of this expedited proceeding it is reasonable to spread the $34,931,000 increase authorized for the Gas Department based on the guidelines. Appendix B sets forth the increases adopted by this order.

14. It is reasonable to defer Palo Alto's request for an adjustment in its lifeline percentage to the 1982 test year general rate proceeding.

15. The increases in rates and charges authorized by this decision are just and reasonable; and present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

Conclusions of Law

1. PG&E should be authorized to file revised electric rates as set forth in Finding 12 designed to generate $121,076,000 of additional annual revenues for its Electric Department to cover estimated operational and financial attrition for 1981 not provided by Decision No. 91107.

2. PG&E should be authorized to file revised gas rates as set forth in Finding 13 and Appendix B designed to generate $34,193,000 of additional annual revenues for its Gas Department to cover estimated operational and financial attrition for 1981 not provided by Decision No. 91107.

3. The effective date of this order should be the date of signature because there is immediate need for rate relief in 1981.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to file with this Commission revised tariff schedules for electric rates as set forth in Finding 12, on or after the effective date of this order designed to generate additional annual electric revenues of $121,076,000. The revised tariff schedules shall become effective five days after filing and shall comply with General Order No. 96-A. The revised rates shall apply only to service rendered on or after the effective date of the revised schedules.

2. PG&E is authorized to file with this Commission revised tariff schedules for natural gas rates as set forth in Finding 13 and Appendix B, attached hereto and by this reference made a part hereof on or after the effective date of this order designed to generate additional annual gas revenues of $34,193,000. The revised tariff schedules shall become effective five days after filing and shall comply with General Order No. 96-A. The revised rates shall apply only to service rendered on or after the effective date of the revised schedules.

3. The motion filed by TURN on October 10, 1980 in this proceeding is denied.

4. All other motions not previously ruled upon are denied.

The effective date of this order is the date hereof.

Dated February 4, 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: Robert Ohlbach, Daniel E. Gibson, and William H. Edwards, Attorneys at Law, for Pacific Gas and Electric Company.

Protestant: William B. Hancock, for Cut Utility Rates Today (CURT).

Intervenors: Morrison & Foerster, by John M. Adler and James P. Bennett, Attorneys at Law, and Mc Nees, Wallace & Nurick, by Henry R. Mac Nicholas, Attorney at Law, for California Industrial Energy Consumers; and Michael S. Lesser and Frank Jefferson, for Citizens Action League.

Interested Parties: Glen J. Sullivan and Allen R. Crown, Attorneys at Law, for California Farm Bureau Federation; Biddle, Walters & Bukey, by Halina F. Osinski, Attorney at Law, for Western Mobilehome Association; John Blethen and Michel Florio, Attorneys at Law, for Toward Utility Rate Normalization (TURN); Linda L. Weisberg, Energy Program Manager, for Stanford University; James F. Sorensen, for Friant Water Users Association; George Agnost, City Attorney, by Leonard Snaider, Attorney at Law, for City and County of San Francisco; Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, Cynthia Choate, and James M. Addams, Attorneys at Law, for California Manufacturers Association; Donald H. Maynor, Attorney at Law, for City of Palo Alto; Robert M. Shillito, for the California Retailers Association; and Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation.

Commission Staff: Thomas F. Grant, Attorney at Law, and Martin Abramson.

Pacific Gas and Electric Company

AUTHORIZED GAS RATE DESIGN

Year 1981 Estimated

Line No.	Class of Service	Adjusted CM and Therms (A)	Revenues at 5-4-80 Effective Rate (B)	Revenues at 5-4-80 M$ (C)	Authorized Rate ($/th) (D)	Authorized Revenue (M$) (E)	Increase M$ (F)	Increase % (G)
	Residential							
1	Customer Months	32,761,950	-	39,315	-	39,315	-	-
2	Tier I	1,602,553,000	.29032	465,253	.29355	470,429	5,176	1.11
3	Tier II	509,599,000	.56705	288,968	.57724	294,161	5,193	1.80
4	Tier III	137,571,000	.66698	91,757	.67904	93,416	1,659	1.81
5	Total	2,249,723,000	-	885,293	-	897,321	12,028	1.36
	Nonresidential (P1 & P2)							
6	Customer Months	2,107,688	1.20	2,529	1.20	2,529	-	-
7	Sales	1,776,680,000	.44562	791,724	.44976	799,080	7,356	0.93
8	Total	1,776,680,000	-	794,253	-	801,609	7,356	-
	Nonresidential (P3 & P4)							
9	G-50 (Sales)	902,280,000	.45874	413,913	.45874	413,913	-	-
10	G-52 (Sales)	723,490,000	.42874	310,189	.42874	310,189	-	-
11	G-55 A (Sales)	-	.40366	-	.41124	-	-	-
12	Total	1,625,770,000	-	724,102	-	724,102	-	-
	Steam Electric (P5)							
13	G-55	1,601,650,000	.40366	646,522	.41124	658,663	12,141	1.88
14	G-57 (SoCal Ed)	293,030,000	.40366	118,284	.41124	120,506	2,222	1.88
15	Total	1,894,680,000	-	764,806	.41124	779,169	14,363	1.88
	Resale							
16	G-60 Lifeline	12,776,000	.28032	3,582	.28355	3,623	-	-
17	Non-Lifeline	25,134,000	.40358	10,142	.41279	10,375	-	-
18	Total	37,910,000	.36202	13,724	-	13,998	274	2.00
19	Other Resale	48,430,000	-	16,868	-	17,040	172	1.02
20	Total Resale	86,340,000	-	30,592	-	31,038	446	1.46
21	SoCal Gas	591,300,000	.43087	254,773	-	254,773	-	-
22	Total System w/LL	8,224,493,000	-	3,453,819	.42410	3,488,012	34,193	0.99
23	Total System w/o LL	6,621,940,000	-	-	.44976	2,978,268	-	-

APPENDIX C

RESIDENTIAL GAS BILL COMPARISON FOR THE BAY AREA

Therms Billed	Present Rates	Authorized Rates 3/	Increase Dollars	Increase Percent
		Summer		
26 1/	$ 8.75	$ 8.86	$0.11	1.3%
45 2/	19.52	19.85	0.33	1.7
100	55.51	56.55	1.04	1.9
200	122.20	124.55	2.35	1.9
		Winter		
50	15.72	15.93	0.21	1.3
95 2/	28.78	29.19	0.41	1.4
106 1/	31.97	32.43	0.46	1.4
200	85.28	86.79	1.51	1.8
300	150.78	153.58	2.80	1.9

1/ Lifeline quantity

2/ Average use

3/ Includes $0.00105/therm, A.59537, ZIP base rate increase

APPENDIX D

Bill Comparison - PG&E Schedule D-1 For a Residential Electric Customer with the Basic Lifeline Allowance of 240 kWh

	Present Base Rates	A.59537 ZIP Base Rate Increase	A.59902 Base Rate Increase	A.60007 New ECAC Rates	New Effective Rates 2/4/81	Old Effective Rates 9/80
Customer Charge	$1.75				$1.75	$1.75
Tier 1	.01690	$ .00002	$ .00216	$ .01610	.03518	.03682
Tier 2	.02430	.00002	.00216	.03213	.05861	.05899
Tier 3	.02430	.00002	.00216	.05440	.08088	.08137

Consumption kWh	Bill at Present Rates	Bill at Proposed Rates	Reduction	Percent Reduction
240	$ 10.59	$ 10.19	$ .40	3.75%
300	14.13	13.71	.42	2.95
400	20.03	19.57	.46	2.27
500	26.37	25.88	.49	1.86
600*	34.51	33.97	.54	1.56
700	42.65	42.05	.60	1.40
800	50.78	50.14	.64	1.27
900	58.92	58.23	.69	1.17
1000	67.06	66.32	.74	1.10
1250	87.40	86.54	.86	.98
1500	107.74	106.76	.99	.92
1750	128.08	126.98	1.10	.86
2000	148.43	147.20	1.23	.83
2500	189.11	187.64	1.47	.78
3000	229.80	228.08	1.72	.75

*Average Domestic Consumption